

and indirect costs are incorporated through a spreadsheet model termed the PCAB. (For a more detailed analysis of the current budgeting methodology, see Appendix 9.) Other nonbasic cost CWS elements are funded in separate budget premises (i.e., budget line items that are independently justified and funded). Funding for the CWS basic program is from a combination of various federal funding sources, state general funds, and county matching funds. Federal title IV-B and title IV-E provide over one third of the total funds for the services component of CWS. Matching funds contributed by counties are required to obtain state and federal funding for CWS basic costs.

All counties operate on a fiscal year and program basis consistent with that of the state. However some counties operate on a cash basis while other counties operate on an accrual basis. The actual budget development life cycle at the county level differs depending on the guidelines established locally for local budget development. Larger counties usually begin their departmental process in the late fall, submitting the Departmental budget request to the county Chief Administrative Office (CAO) in the early months of the new year. Other counties begin the departmental budget development process in the early spring. Critical to county CWS budget development is to forecast the projected state and federal funding available to operate the CWS programs in their respective county.

County staff complete and submit to CDSS the county's CWS basic cost budget in the PCAB model in early March. The preparation of the PCAB precedes or trails the local county budget preparation process. Counties complete their final county budget forecasts only after the Governor's May revision to the budget is issued. Legislative actions may also influence projected county CWS spending with the approval of new legislation that includes additional spending for new or ongoing CWS programs.

Alternative Budget Methodologies

The Need for a Changed or Alternative Budget Methodology

In the broad context, budgeting methodologies are systematic approaches for developing requirements and related cost information, and for submitting on a fair and uniform basis funding requests for appropriation. Ultimately, it is the funding, not the budgeting methodology, that works to the benefit of children needing county assistance in California. The central issue in

considering alternative budget methodologies and the current workload-based approach is how well the process projects realistic costs of projected CWS program requirements.

The need for emergency assistance funding by the legislature the past two years, and in previous years, for county basic child welfare service programs, is a strong indication that the current budget methodology for state funding for basic child welfare services requires revision or replacement. While no methodology can be expected to be a complete panacea for budgeting for state-funded, county-operated, child welfare services programs, improvements are needed.

Staffing costs are the largest budget component for CWS program services. As a result the primary focus of the current budgeting methodology is to identify the specific number of social workers needed to satisfy projected caseload requirements and to aggregate and relate all costs to state-approved staffing. Several of the alternative budget methodologies are conceptual. None focus on workloads and staffing to the extent that the current approach does. Furthermore, none of the alternative approaches resolve the key issue generating this study—that the current workload standards are out of date, incomplete, and end in a budget request short of that considered necessary to carry out child welfare system program requirements.

Direct State Allocation

The least complex budgeting methodology would be for the state to allocate funds on an independent basis on a set of uniform standards, and/or factors that recognize local county cost variation, without requiring detailed county inputs. Such a method could reference and adjust prior years' funding with minimal input from the counties. Under such an approach, the state makes a direct allocation to the counties. The significant diversity in county populations and other variables also would further complicate any direct state allocation methodology. This approach would likely oversimplify the process, minimize county cost variation, and otherwise fall short because of the complexity and variation in counties and their delivery of child welfare services.

Demographic-Based Budgeting

A demographic-based budget approach is a subset of direct allocation and would involve the use of indicators external to the county which would define quantitatively the relative need for funds.

Fund distribution would follow based upon need. Following such an approach, the State Department of Social Services up to 1984 used a set of outside indicators of the need for child welfare services in each county, with reliance on demographic factors such as the number of children up to age 17 in each county, and estimates of the number of families in need of child welfare services. Once CWS requirements were estimated and the budget was determined and approved, funding was allocated on a basis of the county percentage of the total requirement. From a practical standpoint, such an approach would also require, because of the differences in all manner of costs at the county level, unique county budget cost factors.

Basing funding to counties on demographics could be much more complex than the current system relying on caseload factors. It would require compilation of demographics for all counties, trend analysis of the demographics, and forecasting of demographic changes. Average cost data for individual counties would probably also be needed. Because of the funding-match approach used for state funds, counties would need to monitor the demographic data and assess it in the development of county budgets. Such a methodology would be independent of county budget inputs. And reliance caseload information would be less. However, if caseloads are assumed to be a reasonable and representative indicator of prevailing demographic factors, then relying on caseload data is a more direct approach and a reasonable abbreviation of the demographic methodology.

The use of demographics and a statewide budget factor was tried previously and found to be unacceptable. In considering whether or not the state should consider returning to a demographic-based budget methodology, a study of the relationship and correlation of county caseloads and demographics would be most useful. If caseloads correlate satisfactorily with demographics, no practical purpose would be served by a demographic- rather than a caseload-based approach. If caseloads do not correlate with demographic measurements, then further consideration of this budget methodology would be justified.

Using outside data upon which to base fund allocations, like the outcomes budget methodology described later, could be considered an ideal objective approach. Making such a system work would represent a major undertaking.

Zero-Based Budgeting

A methodology that has been considered at a number of governmental levels is zero-based budgeting. Under this approach, all expenditures are theoretically reviewed yearly from a standpoint of requirements, costs, and need. Central is the idea that in re-creating the entire budget every year, waste and unnecessary expenditures will be eliminated.

Zero-based budgeting is necessary and can work well at the outset of new programs and in setting timelines for expected performance. Applying this approach to existing programs, many of which are effectively entitlements, is costly, and generally does not produce dramatic results.

In considering such a budget methodology in the child welfare services area, such an approach would lead to more complexity. The volume of budget information and state reviews would expand. Every county budget would need to be completed for a state-mandated schedule and at a detail level. Evaluating county child welfare service budgets from a zero-based standard would at the state level require intimate knowledge of the operations, policies, issues, and cost structures in all counties.

Zero-based budgeting could be expected to entail much additional effort and cost for questionable savings and is not suggested for further consideration.

Block Grants

Other federally and state supported programs, such as CalWORKs, operate largely through consolidated funding streams, normally referred to as block grants. Under this methodology, funding is made available for defined purposes but with minimum conditions.

The use and support for block grants has increased in recent years. They meet the need for flexibility at the program level. Block grant funding is intended to minimize the bureaucratic aspects of the budgeting process wherein those outside the performance chain are presumed to be accountable for fund expenditures. The increasing use of block grants recognizes that those who do the work and who spend the funds are accountable, responsible, and best qualified to make such decisions.

Block grants in the area of social services have increased dramatically with the CalWORKs program. Their use has also grown in recent years in several child welfare service areas including Adoptions, Family Preservation and Support, Transitional Housing Placement, Options for Recovery, Youth Assistance, and other county-level programs. Block grants have not been used to fund basic child welfare services consisting largely of social worker salaries and support costs.

County staff have considered block grant funding for CWS from time to time, but there is no consensus among the counties for moving to this type of budgeting strategy. Block grants do not take into account local needs, nor does this approach respond well to changes, particularly increases, in caseloads and service delivery requirements. Additionally, once the block grant funding levels are established, changing them is difficult.

With block grants, a system for verifying county compliance with state and federal mandates would be needed. Fund reporting requirements specified under federal regulations would continue to require cost and reporting by the state. Other control and monitoring features would be required, as would a method to rectify noncompliance. Changing over to a system whereby block grants would replace the current methodology would require other administrative and regulatory changes. Tracking of the performance of CWS programs would require performance or outcome measurements and reporting by the counties. Most importantly, this alternative requires a shift in the current approach to state oversight, control, and budget justification.

Performance- or Outcomes-Based Budgeting

Performance- or outcomes-based budgeting is, primarily in the private sector, a useful and well-used methodology. Such a budget methodology works best where measures of performance and profitability are readily determinable. Quality measurement approaches in manufacturing also frequently use outcomes and relate them to budgets. Service functions, again primarily in the private sector, can use such approaches. For instance, when the number of calls, service complaints, or lost accounts are determinable, costs and budgets may be linked.

With child welfare services, such measurements are difficult. Measuring the outcomes of social worker efforts may not be determinable for many years, until a child reaches adulthood. With

outcomes, in some cases, longer than the annual budgeting cycle, any methodology would likely be complex.

In the abstract, an outcomes-based budgeting methodology for child welfare services does represent an ideal way to tie funding to results. Experts in child welfare, and those familiar with the successes of outcomes-based budgets in the private sector, support such an approach. Efforts in child welfare services to develop and fund services based on outcomes are at an embryonic stage. In spite of interest in an outcomes budget methodology, no state model that relates funding to performance currently exists.

Adopting an outcomes approach in an entity the size of California would entail an enormous analytical and data collection effort and a uniform and accepted set of measurable outcomes. These do not exist and developing them represents a significant requirement. Cost, service, and workload factors that directly relate to outcomes would also be required, as would a measurement system.

Because of the embryonic state of this methodology, developing a workable system for outcomes-based budgeting is a huge undertaking and one that could only be approached on a long-term basis. However, developing and measuring outcomes is a solid starting point that could lead to improvements in child welfare services and ultimately such a budgeting approach.

State Child Welfare Services and Budgets

Most large states rely on a caseload methodology to arrive at a CWS budget. States maintain state operation of major portions of the child welfare system. A few states operate a state, or state-managed, regional child welfare agency throughout the state. State child welfare service social workers are hired and work under state rules. Budgeting is completed on a state departmental basis. In states with small populations, small CWS staffs, and/or limited geographic areas, this offers advantages. It can result in a standardized services approach, and may reduce administrative overhead. In large states, changing to such a system would be a lengthy and difficult process.

California has not attempted to operate standardized programs where not justified, nor has it assumed significant program responsibilities currently at the county level. While the idea of a

state-operated child welfare services agency operating in all localities, replacing the current county child welfare service structure may stimulate interest, replacing current county child welfare service programs with a state-operated program would be massive and costly. It would impact the active child welfare cases and require a significant effort. Justifying an approach whereby the state carried out all child welfare service agency responsibilities would need to be based on significant cost savings that outweigh transition costs and problems. Developing such data is beyond the scope of this study.

Given the size and diversity of California, and existence of county child welfare services that have been and are functioning, converting to state-only child welfare services agency and an accompanying state budget methodology is not suggested.

County-Funded Budgeting

In 1997, the California Department of Finance, proposed that the percentage of sales taxes collected by the counties be increased and directly returned to the counties for operation of their child welfare programs. With such action, the state appropriation for child welfare services would be reduced or eliminated.

This approach would change the methodology in child welfare service budget development only by shortcutting and eliminating budget submissions to, and actions at, the state. It could be expected to eliminate only a small number of state personnel involved in child welfare service budgeting, but would likely require increased staff to assure conformance with current state statutory requirements. Such a realignment would provide significant latitude to counties for the operation of child welfare programs but would not eliminate federal mandates and reporting. Neither would such changes eliminate the need for state planning and policies. This proposal was not accepted by the Legislature.

Conclusions

Given the weight of federal and state mandates, and the inherent complications of funding the existing county-operated child welfare system, it is highly unlikely that a change in current budget methodology will change the result. Likewise, arriving at a perfect budget methodology that satisfies everyone in the approval chain at both the county and state level is a highly unlikely

outcome. The many issues that exist inside and outside the existing fund request process are not readily reconcilable even with a different budgeting methodology.

The outcomes budget methodology represents an ideal. It is a positive idea in need of a practical methodology. The other budget approaches discussed do not have sufficient merit for use in child welfare services when compared to a service-based methodology.

A system of block grants based on matching county funds could result in a much simpler and less complex approach. So long as caseloads are considered a significant requirements measure, any block grant approach, to be effective, would need to assess and adjust on caseloads. Any block grant approach would warrant an initial controlled and successful test prior to full implementation.

Budget Review Findings

Current CWS Budget Methodology Strengths

The current PCAB Basic CWS budget process has a number of positive features. It is based on service (i.e., caseload). With the cost of doing business adjustments and projected next-year caseloads incorporated by the CDSS/CWS staff, it is prospective. It is based on and recognizes unique county salaries, and direct and indirect overhead cost components. It addresses funding allocations on a historical actual spending basis. It is consistent with federal cost reporting requirements. It provides an opportunity for counties to justify changes that impact workload and costs, and includes review by state analysts familiar with county innovations and program changes. In addition, state premise revisions are reviewed for consistency with impacted county programs.

Current CWS Budget Methodology Limitations

The current PCAB process has a number of limitations. Most importantly, it relies upon 1984 statewide caseload standards. The PCAB model is overly complex. It does not recognize the current trend toward providing preventive services to keep children and families out of the child welfare system. Current standards do not recognize county CWS innovation, changes, or conditional revisions inherent in the process. The overall budget process involves multiple factors for several of the component basic fund requirements, including CMS staffing, training,

and operation. Demographic factors, particularly those related to bilingual caseloads, are not considered. The individual factors impacting caseload are not examined or updated on a frequent basis. The experience level of welfare workers and capability to handle full caseloads is not recognized. The unit cost concept is difficult to relate to caseload. The unit cost range is broad and not directly explainable. Performance measurement is limited with caseload trend measurement reported only on a statewide basis.

Conclusions on the Current Basic Budget Approach

The current CWS basic budget process is sophisticated and complex. It is conditioned in large measure by federal and state mandates and by the need to recognize the significant variation in county costs of child welfare services.

The primary advantages to the current basic budget methodology are that it recognizes caseload, county salary, and operating cost variances, and projects cost of doing business and caseload changes. In that sense, and to the degree that county PCAB input data is used for allocating funds, the PCAB budget accommodates the cost variations inherent in each county. However, the current budget methodology is based on 1984 workload factors. These are outdated and need to be revised. They also should be expanded to accommodate changes and innovations and other workload considerations.

California has a population in excess of 32 million, and projected continued population growth. Given this condition, the budget methodology dedicated to providing adequate funds for child welfare services needs to be flexible. It needs to accommodate innovative approaches; recognize changes in workloads, variations in costs by counties, social worker experience factors, and bilingual caseload requirements; and provide a fair and equitable system for fund distribution and control.

Reverting to a demographic-based budget would be a return to a budget process similar to that used before 1984 and would only indirectly address actual service workloads. A demographic-based budget process, to be effective, would require county-by-county adjustments for salaries and operating costs. Such an approach would involve development and continual updating of a series of county cost factors. As a result, returning to a demographic-based budget does not appear justified or appropriate. However, demographic data would be useful in considering and

justifying new and special programs, in attempting to assess the impact of bilingual CWS requirements, and in evaluating trends and in evolving outcome measurements.

The current use of a service-based budget and the existing PCAB methodology and process seems appropriate, given the county population and cost variation inherent in a state the size of California. Such use is consistent with a state philosophy whereby the state retains cost control over services provided at the county level.

Simplification and Consolidation

Revision, simplification, and consolidation of the current budgeting and funding process are desirable and were endorsed in a previous 1997 State Department of Finance Study entitled A Performance Review: California's Child Welfare System. Simplification and consolidation would be welcome but doing so would require major changes in federal requirements—no small challenge. Because of the multiple funding sources, requirements, premises, and fund sharing by the federal, state and county, there is no simple way to roll up the CWS program budget. The alternative approach cited above—providing a state matching grant to each county—would move toward simplification. This approach, however, is not generally supported by knowledgeable county personnel because they fear it would evolve to hard statewide factors which fail to address the myriad of variations in the state and in CWS requirements.

Simplification by the state could also be done by consolidating and averaging county cost factors. While these factors could be applied to caseloads to arrive at county budget requirement totals, unique county salary and support costs would be difficult to include.

Developing a simpler, consolidated budgeting approach, while desirable, is probably only possible with the alternative strategy suggested above. The state is responsible for state and federal funding and compliance. This requires consistent methods to define requirements, collect data, and broad direction intended to bring uniformity to reported data elements.

An Alternative Budget Methodology Approach

Alternatively, state funding could be allocated strictly on the basis of county funding. For example, for every \$100 of county CWS expenditures in the past year, the state could provide a direct grant of \$350 or more in the succeeding budget year. Such use of a straight state-to-

county matching formula would be simpler and less complex. Budget submission and CDSS revision requirements for basic budget (PCAB) requirements would be minimized. However, federal cost collection and reporting by the state would continue to be required.

Outcome Measurements

Additional reporting of outcomes would provide meaningful data for assessing program costs and performance. However, in the absence of agreed upon, recognized outcome measures, and given the lengthy times to achieve satisfactory outcomes, developing a budget methodology based on outcomes is premature at this time. Further study to establish uniformly accepted outcome measurements would seem appropriate.

Additional Performance Reporting

The California Department of Social Services, Child Welfare Services Division, develops historical information of child welfare services, based primarily on caseload information. This information tracks ER, FM, FR, PP, and other caseload trends.

Performance measures outside of case projections are not included in reports to the Legislature. Tracking and reporting of performance data apart from strict caseload information at the state level represents a significant task but one which would enable a better analysis of performance and which would seem necessary to develop data necessary to eventually enable outcome measurements.

